

**CITY OF ROCHESTER  
MICHIGAN**

**ANNUAL FINANCIAL REPORT  
WITH SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
JUNE 30, 2005**

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF ROCHESTER</b>	County <b>OAKLAND</b>
Audit Date <b>JUNE 30, 2005</b>	Opinion Date <b>NOVEMBER 1, 2005</b>	Date Accountant Report Submitted to State: <b>DECEMBER 16, 2005</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<b>X</b>		
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>

Certified Public Accountant (Firm Name) <b>GUEST, OLDS AND WEST, PLC</b>			
Street Address <b>30600 TELEGRAPH ROAD</b>	City <b>BINGHAM FARMS</b>	State <b>MI</b>	ZIP <b>48025</b>
Accountant Signature <i>Daniel E. Enala, CPA</i>		Date <i>12/16/05</i>	

**CITY OF ROCHESTER  
MICHIGAN  
ANNUAL FINANCIAL REPORT  
WITH SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2005**

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# Guest, Olds and West, PLC

Certified Public Accountants

Donald G. Olds, CPA  
Lawrence E. West, CPA  
Joseph Trocino, CPA  
Daniel E. Tornala, CPA  
Douglas G. Olds, CPA

Lynn Brunson, CPA

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
Rochester, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rochester, Michigan as of and for the year ended June 30, 2005 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Rochester, Michigan management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rochester, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rochester, Michigan basic financial statements. The accompanying other supplemental information, as identified in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole

BINGHAM FARMS, MICHIGAN  
November 1, 2005

*Guest, Olds and West, PLC*  
GUEST, OLDS AND WEST, PLC  
Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This discussion and analysis of the City of Rochester's financial performance provides an overview of the City's financial activities for the year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities on the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

### **Reporting the City as a Whole**

#### **The Statement of Net Assets and the Statement of Activities**

These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health, or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Governmental activities—Most of the City's basic services are reported here, including the police, fire, general administration, parks, public works, City Council, boards and commissions, and financial support to the Rochester Hills Public Library. Property taxes, sales taxes, fines, and state and federal grants finance most of these activities.

- Business-type activities—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water, sewer, and auto parking activities are reported here.

## **Reporting the City's Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds—not the City as a whole. Funds control and manage money for particular purposes (like the Downtown Development Authority Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the state's gas tax receipts in the Major Streets Fund and Local Streets Fund).

The City's two kinds of funds (governmental and proprietary) use different accounting approaches:

- Governmental funds: most of the City's basic services are reported in government funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements.
- Proprietary funds: when the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Activities. In fact, the City's enterprise fund is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

## **The City as Trustee**

### **Reporting the City's Fiduciary Responsibilities**

The City is the trustee, or fiduciary, for the Tax Collection Fund, the Dental and Optical Fund, the Severance and Sick Fund, the Volunteer Firefighters Pension

System Fund and the Retiree Hospitalization Fund. All of the City's fiduciary funds are reported in a separate Statement of Fiduciary Net Assets.

We exclude fiduciary activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## THE CITY AS A WHOLE

### Net Assets

For the year ended June 30, 2005, net assets changed as follows:

	Governmental Activities	Business-type Activities
Beginning net assets	\$24,818,727	\$22,422,188
Increase in net assets	1,887,284	565,769
<b>Ending net assets</b>	<b>\$26,706,011</b>	<b>\$22,987,957</b>

This section will highlight some significant differences between the current- and prior-year assets, liabilities, and changes in net assets on the accrual basis of accounting.

	CITY OF ROCHESTER'S NET ASSETS					
	Governmental Activities FY 03-04	Governmental Activities FY 04-05	Business-type Activities FY 03-04	Business-type Activities FY 04-05	Total FY 03-04	Total FY 04-05
<b>Assets</b>						
Current and other assets	\$17,816,210	\$18,750,025	\$13,104,032	\$12,848,418	\$30,920,242	\$31,598,443
Capital assets	16,796,557	18,799,804	9,994,004	10,617,251	26,790,561	29,417,055
<b>Total assets</b>	<b>\$34,612,767</b>	<b>\$37,549,829</b>	<b>\$23,098,036</b>	<b>\$23,465,669</b>	<b>\$57,710,803</b>	<b>\$61,015,498</b>
<b>Liabilities</b>						
Long-term liabilities outstanding	\$7,973,000	\$8,320,046	\$-	\$-	\$7,973,000	\$8,320,046
Other liabilities	1,821,040	2,523,772	675,848	477,712	2,496,888	3,001,484
<b>Total liabilities</b>	<b>\$9,794,040</b>	<b>\$10,843,818</b>	<b>\$675,848</b>	<b>\$477,712</b>	<b>\$10,469,888</b>	<b>\$11,321,530</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	\$16,796,557	\$18,799,804	\$9,994,004	\$10,617,251	\$26,790,561	\$29,417,055
Restricted	646,157	916,568	11,561,149	11,062,322	12,207,306	11,978,890
Unrestricted	7,376,013	6,989,639	867,035	1,308,384	8,243,048	8,298,023
<b>Total net assets</b>	<b>\$24,818,727</b>	<b>\$26,706,011</b>	<b>\$22,422,188</b>	<b>\$22,987,957</b>	<b>\$47,240,915</b>	<b>\$49,693,968</b>



The increase in total net assets from FY 03-04 to FY 04-05 is accounted for almost entirely by the purchase of capital assets, which will be detailed in the Capital Asset and Debt Administration section of the Management Discussion and Analysis.

### Changes in Net Assets Due to Changes in Revenue and Expenditures

The following is a condensed comparison of revenues and expenses between the prior and current reporting periods and explanations of significant differences.

	CITY OF ROCHESTER'S CHANGES IN NET ASSETS				Total	
	Governmental Activities FY 03-04	Governmental Activities FY 04-05	Business-type Activities FY 03-04	Business-type Activities FY 04-05	FY 03-04	FY 04-05
<b>Revenues</b>						
Program revenues						
Charges for services	\$997,093	\$1,045,507	\$3,229,481	\$3,451,782	\$4,226,574	\$4,497,289
Operating grants & contributions	1,542,769	1,530,856	96,000	-	1,638,769	1,530,856
Capital grants & contributions	92,920	28,707	-	-	92,920	28,707
General revenues						
Property taxes	10,331,735	10,624,897	-	-	10,331,735	10,624,897
State shared revenues	-	-	-	-	-	-
Unrestricted investment earnings	172,492	395,307	66,498	244,039	238,990	639,346
Miscellaneous	115,698	144,567	56,259	-	171,957	144,567
<b>Total revenues</b>	<b>\$13,252,707</b>	<b>\$13,769,841</b>	<b>\$3,448,238</b>	<b>\$3,695,821</b>	<b>\$16,700,945</b>	<b>\$17,465,662</b>
<b>Expenses</b>						
General government	\$873,453	\$1,809,011	\$-	\$-	\$873,453	\$1,809,011
Public safety	3,197,203	3,465,691	-	-	3,197,203	3,465,691
Public works	1,338,412	1,521,104	-	-	1,338,412	1,521,104
Comm and econ dev	3,747,251	2,856,804	-	-	3,747,251	2,856,804
Highway and streets	2,190,068	248,228	-	-	2,190,068	248,228
Culture and recreation	990,222	1,170,204	-	-	990,222	1,170,204
Interest expense	387,962	396,561	-	-	387,962	396,561
Water and sewer	-	-	2,825,135	2,701,322	2,825,135	2,701,322
Automobile parking	-	-	26,019	53,529	26,019	53,529
<b>Total expenses</b>	<b>\$12,724,571</b>	<b>\$11,467,603</b>	<b>\$2,851,154</b>	<b>\$2,754,851</b>	<b>\$15,575,725</b>	<b>\$14,222,454</b>
Increase in net assets before transfers	\$6,541,512	\$2,302,238	\$597,084	\$940,970	\$7,138,596	\$3,243,208
Transfers	\$117,874	(\$414,954)	(\$356,240)	(\$375,200)	(\$238,366)	(\$790,154)
Increase in net assets	\$7,861,506	\$1,887,284	\$240,844	\$565,770	\$8,102,350	\$2,453,054
<b>Net Assets - 6/30/04</b>	<b>\$24,818,727</b>		<b>\$22,422,188</b>		<b>\$47,240,915</b>	
<b>Net Assets - 6/30/05</b>		<b>\$26,706,011</b>		<b>\$22,987,958</b>		<b>\$49,693,969</b>

A brief explanation of significant differences follows. The first significant difference in revenues is in unrestricted investment earnings, which increased by over \$400,000 combined for Governmental and Business-type activities due to an improving interest rate market for municipal investments, as well as investments in securities that were initiated with MBIA in the final quarter of the fiscal year.

Business-type revenues saw a significant change in their Charges for services revenues, which increased by over \$200,000. This was due primarily to an increase in water sales and sewer disposal revenue.

Governmental Activities expenses changed significantly in the following cases:

- General government: this activity saw a significant increase primarily due to the one-time re-classification of capitalized expenses in FY 03-04 which caused that year's figure to appear low in relation to the FY 04-05 figure.
- Community and economic development: this activity saw a significant decrease due to the completion of the Older Persons' Commission (OPC) building project in FY 03-04, which accounted for almost \$900,000 of expenditures in that period.
- Highways and streets: this activity saw a significant decrease due to the capitalization of two major bridge projects (Second Street and East University) which were partially expended but not capitalized in FY 03-04.

### **The Statement of Activities**

To aid in the understanding of the full Statement of Activities some additional explanation is appropriate. The format is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. Expenses are listed in the first column with revenues from that particular program reported to the right, resulting in a Net (Expense)/Revenue.

The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. Some of the individual line item revenues reported for each function are:

Community Development	CDBG grants
Culture and Recreation	Cemetery fees
General Government	Administrative service fees, state and federal capital grants

Highways and Streets	Right of way license fees, storm sewer permits, gas and weight taxes, state trunkline maintenance charges, county tri-party grants, special assessment collections
Public Safety	School liason program fees, building permit fees, business and pet license fees, ordinance violation fees, planning and zoning fees, state and federal grants for law enforcement, sales of confiscated assets
Public Works	Public works services fees

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

There are two "Business-type" activities: water and sewer and auto parking. The water and sewer activity is showing net revenue of \$582,902. This is due to the aforementioned increase in water sales and sewer disposal revenue, tap fee revenue that is designated for the long-term replacement of the water and sewer system (totaling \$241,580 for FY 04-05), as well as reduced operating expenses (down \$120,000 vs. FY 03-04).

The auto parking activity shows net revenue of \$114,029. The revenue from parking meters and parking tickets (totaling over \$89,500 for FY 04-05) is augmented by payments in lieu of parking meters from the Downtown Development Authority (totaling \$34,000 for FY 04-05).

## THE CITY'S FUNDS

This section will provide a summary of the basic financial statements for the city's funds, beginning with the combined governmental funds balance sheet.

<b>Assets</b>	<b>FY 04-05 TOTAL</b>	<b>PCT OF TOTAL</b>	<b>CHANGE FROM 03-04</b>	<b>PCT CHG.</b>
Cash and investments	\$15,788,611	88.8%	\$1,038,144	7.4%
Accounts receivable – net	257,806	1.4%	(189,440)	-42.4%
Taxes receivable – net	181,492	1.0%	81,019	80.6%
Due from other funds	321,800	1.8%	47,837	17.5%
Special assessments rec.	1,177,871	6.6%	(146,919)	-11.1%
Prepaid expenses and other	62,972	0.4%	2,282	3.8%
<b>Total Assets</b>	<b>\$17,790,552</b>			
<b>Liabilities</b>	<b>FY 04-05 TOTAL</b>	<b>PCT OF TOTAL</b>	<b>CHANGE FROM 03-04</b>	<b>PCT CHG.</b>
Accounts payable	\$682,513	17.5%	\$149,938	28.2%
Accrued liabilities	154,437	4.0%	63,556	69.9%
Deferred revenues	1,144,114	29.3%	(181,294)	-13.7%
Due to other funds	283,158	7.3%	20,001	7.6%
Due to other governments	1,243,020	31.9%	319,839	34.6%
Other liabilities	390,068	10.0%	130,044	50.0%
<b>Total Liabilities</b>	<b>\$3,897,310</b>			
<b>Fund Balance</b>	<b>FY 04-05 TOTAL</b>	<b>PCT OF TOTAL</b>	<b>CHANGE FROM 03-04</b>	<b>PCT CHG.</b>
Reserved	\$931,568	6.7%	\$265,411	39.8%
Unreserved – Gov't Funds	12,961,674	93.3%	66,428	0.5%
<b>Total Fund Balance</b>	<b>\$13,893,242</b>			

The most significant changes in assets, liabilities and fund balance were in the Cash and investments (up \$1,038,144), Accounts receivable (down \$189,440), Special assessments receivable and Deferred revenue, and Due to other governments (up \$319,839). The increase in Cash and investments was due primarily to a 3.5% increase in tax revenue, as well as improved investment returns. The decreases in Special assessments receivable and Deferred revenue was due to the normal payment of Principal Shopping District accounts in FY 04-05. The increase in the Due to other governments resulted from increased revenue due to the local school district, intermediate schools and the State Education tax under Proposal A.

The following schedule presents a summary of general, special revenue, capital project, debt service, and permanent fund revenues and expenditures for the fiscal year ended June 30, 2005, and the amount and percentage of increases and decreases in relation to the prior year.

<b>Revenues</b>	<b>FY 04-05 TOTAL</b>	<b>PCT OF TOTAL</b>	<b>CHANGE FROM 03-04</b>	<b>PCT CHG.</b>
Taxes	\$10,730,980	75.2%	\$367,535	3.5%
Licenses	356,531	2.5%	(28,317)	-7.4%
Intergovernmental	1,540,794	10.8%	(39,389)	-2.5%
Service Charges and Sales	813,078	5.7%	35,832	0.3%
Fines and Forfeits	63,711	0.5%	(5,335)	-7.7%
Miscellaneous	755,468	5.3%	148,590	24.5%
<b>Total Revenues</b>	<b>\$14,260,562</b>			

The only significant changes in revenue were due primarily to the aforementioned increases in tax revenue and investment returns.

<b>Expenditures</b>	<b>FY 04-05 TOTAL</b>	<b>PCT OF TOTAL</b>	<b>CHANGE FROM 03-04</b>	<b>PCT CHG.</b>
General Government	\$2,468,717	18.3%	\$284,614	13.0%
Public Safety	3,331,304	24.7%	171,890	5.4%
Public Works	3,172,654	23.5%	683,435	27.5%
Sanitation	687,862	5.1%	27,726	4.2%
Parks and Recreation	531,912	4.0%	75,285	16.5%
Public Library	460,816	3.4%	12,716	2.8%
Planning Commission and ZBA	54,059	0.4%	12,685	30.7%
Capital Outlay	1,806,547	13.4%	-1,200,458	-39.9%
Debt Service	968,666	7.2%	-37,927	-3.8%
<b>Total Expenditures</b>	<b>\$13,482,537</b>			

A portion of the increase in General Government was due to increases in the cost of health care benefits and retirement contributions to MERS, which are based on actuarial assessments.

The increase in Parks and Recreation was due primarily to adjustments to equipment rental charges for the Revolving Equipment fund and increased maintenance costs for the Community House.

The increase in Public Works was primarily due to a previously-mentioned increase in road paving and bridge construction projects.

The decrease in Capital Outlay was due primarily to the previously-mentioned Older Persons Commission building project as well as the completion of Paint Creek Walkway improvements and the Vest Pocket Park project in FY 03-04.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The City pre-funded important future objectives in FY 04-05. First, the General Fund contributed \$338,000 to the Retiree Hospitalization Fund in order to provide resources for future retiree health care obligations. Also, the General Fund also contributed \$250,000 to the Fire Equipment Reserve Fund primarily to finance the future replacement of the Tower Truck.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of June 30, 2005, the City had \$29,417,055 million invested in capital assets including police and fire equipment, buildings, park facilities, roads and water, sewer, and storm sewers (see table below). This represents a net increase of almost 9 percent over last year.

	<b>Governmental Activities</b>		<b>Business Activities</b>		<b>Totals</b>	
	<b>03-04</b>	<b>04-05</b>	<b>03-04</b>	<b>04-05</b>	<b>03-04</b>	<b>04-05</b>
Land	2,107,911	2,107,911	323,253	363,253	2,417,164	2,417,164
Buildings	3,234,680	3,140,842	0	0	3,234,680	3,140,842
Improvements	137,708	133,599	9,612,167	10,237,296	9,749,875	10,370,895
Equipment	1,818,813	1,945,025	18,548	384,414	1,837,397	1,961,727
Infrastructure	9,497,445	11,472,427	0	0	9,497,445	11,472,427
Construction	0	0	0	0	0	0
<b>Totals</b>	<b>16,796,557</b>	<b>18,799,804</b>	<b>9,994,004</b>	<b>10,617,251</b>	<b>26,790,561</b>	<b>29,417,055</b>

This year's major additions included the completion of the Second Street Bridge (approximately \$1,084,000 for FY 03-04), the University Bridge project (approximately \$756,000), the Kiwanis Shelter Bridge project (approximately \$205,000), a new Street Sweeper (approximately \$164,000), water and sewer main improvements (approximately \$880,000), and police and DPW vehicle purchases (approximately \$112,000).

## Debt

As of June 30, 2005, the City had \$7,964,141 in outstanding General Obligation bonds and land contracts payable compared to \$7,635,486 at the end of FY 03-04. That is an increase of 4.3 percent as shown in the following table.

	03-04	04-05
General Obligation Bonds	\$7,535,000	\$6,910,000
Land Contract Payable	\$100,486	\$1,054,141
<b>Totals</b>	<b>\$7,635,486</b>	<b>\$7,964,141</b>

## ECONOMIC FACTORS, MAJOR EXPENDITURES AND RATES

Beginning in the calendar year 2001 and continuing into Fiscal Year 04-05, the City has experienced a decrease in the state's Shared Revenue distributions. More decreases are anticipated for the future. The nationwide economic recovery has been in motion for some time, however Michigan's economy has lagged in some key regards. The City will continue to budget Revenue Sharing cautiously.

For the Fiscal Year 05-06, the City is planning some significant capital projects, including storm sewer improvements (\$350,000), tree planting (\$92,000), the DPW Salt Barn replacement (\$100,000), as well as Clinton River Bank Stabilization (\$100,000) and the construction of the Clinton River Trail parking lot (\$125,000).

Road and bridge projects are planned from the Major and Local Streets funds for FY 05-06 totaling \$645,000.

Purchases of new vehicles for the Police Department are budgeted for FY 05-06 at \$65,000, including two new Police squad cars and a new investigator vehicle.

The Revolving Equipment Fund is budgeted in FY 05-06 to purchase vehicles for use by the Department of Public Works and Parks and Recreation in the amount of \$269,000.

There are no plans to change the City of Rochester's property tax rates, which are designated for the City's general operations (including appropriations to several organizations which deliver cultural and recreational programs to the public), City-owned debt, and the operation of the Older Persons' Commission.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipal Offices at 400 Sixth Street, Rochester, Michigan.

Kenneth A. Johnson  
City Manager

Thomas C. Skrobola  
Finance Director



**CITY OF ROCHESTER**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash and investments	\$ 17,050,199	\$ 907,341	\$ 17,957,540
Receivables:			
Customers	439,298	719,739	1,159,037
Special assessments	1,177,871	-	1,177,871
Internal balances	8,691	(8,691)	-
Due from other governmental units	-	-	-
Prepaid items and other assets	64,577	2,515	67,092
Inventories	9,389	48,050	57,439
Restricted assets	-	11,179,464	11,179,464
Capital assets - net	<u>18,799,804</u>	<u>10,617,251</u>	<u>29,417,055</u>
<b>TOTAL ASSETS</b>	37,549,829	23,465,669	61,015,498
<b>LIABILITIES</b>			
Accounts payable	734,541	318,870	1,053,411
Intergovernmental payables	1,236,172	-	1,236,172
Accrued and other liabilities	553,059	41,700	594,759
Liabilities from restricted assets	-	117,142	117,142
Noncurrent liabilities:			
Bonds and contracts payable,			
Due within one year	788,325	-	788,325
Bonds and contracts payable,			
Due in more than one year	7,175,816	-	7,175,816
Employee absences	<u>355,905</u>	<u>-</u>	<u>355,905</u>
<b>TOTAL LIABILITIES</b>	10,843,818	477,712	11,321,530

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLC**  
Certified Public Accountants

**CITY OF ROCHESTER**  
**STATEMENT OF NET ASSETS - Continued**  
**JUNE 30, 2005**

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	18,799,804	10,617,251	29,417,055
Restricted:			
Water & Sewer	-	11,062,322	11,062,322
Special revenue	287,491	-	287,491
Debt Service	171,648	-	171,648
Capital projects	457,429	-	457,429
Unrestricted	6,989,639	1,308,384	8,298,023
<b>TOTAL NET ASSETS</b>	<u>\$ 26,706,011</u>	<u>\$ 22,987,957</u>	<u>\$49,693,968</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLC**  
Certified Public Accountants

**CITY OF ROCHESTER**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Net (Expense) Revenue and Changes in Net

Functions/Programs	Program Revenues					Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Total
						Business-type Activities		
Primary government - Governmental activities:	\$ 1,809,011	\$ 128,119	\$ 869,371	\$ 4,108	\$ (807,413)	\$ -	\$	(807,413)
	3,465,691	621,424	4,557	-	(2,839,710)	-		(2,839,710)
	1,521,104	49,707	-	-	(1,471,397)	-		(1,471,397)
	2,856,804	150,610	-	24,599	(2,681,595)	-		(2,681,595)
	248,228	56,187	656,928	-	464,887	-		464,887
	1,170,204	39,460	-	-	(1,130,744)	-		(1,130,744)
	396,561	-	-	-	(396,561)	-		(396,561)
	11,467,603	1,045,507	1,530,856	28,707	(8,862,533)	-		(8,862,533)
Business-type activities:	2,701,322	3,284,224	-	-	-	582,902		582,902
	53,529	167,558	-	-	-	114,029		114,029
	2,754,851	3,451,782	-	-	-	696,931		696,931
Total primary government	\$ 14,222,454	\$ 4,497,289	\$ 1,530,856	\$ 28,707	(8,862,533)	696,931		(8,165,602)
General revenues:	Property taxes and related fees				10,624,897	-		10,624,897
	State-shared revenues				-	-		-
	Unrestricted investment earnings				395,307	244,039		639,346
	Miscellaneous				144,567	-		144,567
	Transfers				(414,954)	(375,200)		(790,154)
Total general revenues and transfers					10,749,817	(131,161)		10,618,656
Change in Net Assets					1,887,284	565,770		2,453,054
Net Assets - Beginning of year					24,818,727	22,422,188		47,240,915
Net Assets - End of year					\$ 26,706,011	\$ 22,987,958	\$	49,693,969

**CITY OF ROCHESTER  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2005**

	GENERAL FUND	MAJOR STREETS FUND	LOCAL STREETS FUND	DOWNTOWN DEVELOPMENT AUTHORITY FUND	CAPITAL PROJECTS GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>							
Cash and investments	\$ 5,364,248	\$ 1,585,234	\$ 1,586,967	\$ 2,587,261	\$ 3,663,253	\$ 1,001,648	\$ 15,788,611
Accounts receivable - net	129,166	84,191	29,449	-	15,000	-	257,806
Taxes receivable - net	61,976	-	-	117,665	-	1,851	181,492
Due from other funds	30,751	20,561	-	-	270,000	488	321,800
Special assessments receivable	-	-	111,556	1,066,315	-	-	1,177,871
Prepaid expenses and other assets	59,672	381	916	1,559	-	444	62,972
<b>TOTAL ASSETS</b>	<b>\$ 5,645,813</b>	<b>\$ 1,690,367</b>	<b>\$ 1,728,888</b>	<b>\$ 3,772,800</b>	<b>\$ 3,948,253</b>	<b>\$ 1,004,431</b>	<b>\$ 17,790,552</b>

**LIABILITIES AND FUND BALANCE**

<b>LIABILITIES</b>							
Accounts payable	\$ 179,550	\$ 105,625	\$ 226,127	\$ 79,216	\$ 90,361	\$ 1,634	\$ 682,513
Accrued and other liabilities	97,866	-	2,924	53,647	-	-	154,437
Deferred revenues	1,158	-	111,556	1,031,400	-	-	1,144,114
Due to other funds	13,158	250,000	-	20,000	-	-	283,158
Due to other governmental units	6,902	-	-	1,236,118	-	-	1,243,020
Other liabilities	390,068	-	-	-	-	-	390,068
<b>TOTAL LIABILITIES</b>	<b>688,702</b>	<b>355,625</b>	<b>340,607</b>	<b>2,420,381</b>	<b>90,361</b>	<b>1,634</b>	<b>3,897,310</b>

**FUND BALANCES**

Reserved	-	-	-	-	15,000	916,568	931,568
Unreserved - Reported in:							
General Fund	4,957,111	-	-	-	-	-	4,957,111
Special Revenue Fund	-	1,334,742	1,388,281	-	-	86,229	2,809,252
Capital Projects Fund	-	-	-	1,352,419	3,842,892	-	5,195,311
<b>TOTAL FUND BALANCES</b>	<b>4,957,111</b>	<b>1,334,742</b>	<b>1,388,281</b>	<b>1,352,419</b>	<b>3,857,892</b>	<b>1,002,797</b>	<b>13,893,242</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,645,813</b>	<b>\$ 1,690,367</b>	<b>\$ 1,728,888</b>	<b>\$ 3,772,800</b>	<b>\$ 3,948,253</b>	<b>\$ 1,004,431</b>	<b>\$ 17,790,552</b>

**Guest, Olds and West, PLC**  
Certified Public Accountants

**CITY OF ROCHESTER  
RECONCILIATION OF THE BALANCE SHEET  
OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
YEAR ENDED JUNE 30, 2005**

<b>FUND BALANCE - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 13,893,242</b>
Amounts reported for governmental activities in the statement of net activities are different because:	
Capital assets used in the governmental activities are not current financial resources and are not reported in the governmental funds balance sheet	16,823,836
The funds defer recognition of revenue on any amounts not collected within two months of the end of the year	1,046,742
Internal Service Fund is included as part of governmental activities	3,262,237
The funds do not report bond indebtedness as a liability until it comes due for payment	(7,964,141)
Employee compensated absences are not due and payable in the current period and are not reported in funds	<u>(355,905)</u>
<b>NET ASSETS OF GOVERNMENTAL FUNDS</b>	<b><u>\$ 26,706,011</u></b>

The Notes to Financial Statements are an  
Integral Part of this Statement

**Guest, Olds and West, PLLC**  
Certified Public Accountants

**CITY OF ROCHESTER**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2005**

	GENERAL FUND	MAJOR STREETS FUND	LOCAL STREETS FUND	DOWNTOWN DEVELOPMENT AUTHORITY FUND	CAPITAL PROJECTS GENERAL FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>							
Taxes and special assessments	\$ 8,370,752	\$ -	\$ 56,187	\$ 1,924,662	\$ -	\$ 379,379	\$ 10,730,980
Licenses and permits	356,531	-	-	-	-	-	356,531
Intergovernmental revenue	884,156	474,342	182,296	-	-	-	1,540,794
Service charges and sales	769,633	-	-	-	-	43,445	813,078
Fines and forfeits	63,711	-	-	-	-	-	63,711
Miscellaneous	136,587	1,998	1,206	172,203	45,721	444	358,159
Interest income	193,560	27,613	31,426	60,195	71,508	13,007	397,309
<b>TOTAL REVENUES</b>	<b>10,774,930</b>	<b>503,953</b>	<b>271,115</b>	<b>2,157,060</b>	<b>117,229</b>	<b>436,275</b>	<b>14,260,562</b>
<b>EXPENDITURES</b>							
General public	1,414,507	-	-	918,614	-	135,596	2,468,717
Public safety	3,331,304	-	-	-	-	-	3,331,304
Public works	828,365	1,655,349	688,940	-	-	-	3,172,654
Sanitation	687,862	-	-	-	-	-	687,862
Parks and recreation	531,912	-	-	-	-	-	531,912
Public library	460,816	-	-	-	-	-	460,816
Planning commission and zoning board	54,059	-	-	-	-	-	54,059
Capital outlay	-	-	-	620,900	1,171,830	13,817	1,806,547
Debt Service:	-	-	-	-	-	625,000	625,000
Principal	-	-	-	-	-	343,666	343,666
Interest	-	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>7,308,825</b>	<b>1,655,349</b>	<b>688,940</b>	<b>1,539,514</b>	<b>1,171,830</b>	<b>1,118,079</b>	<b>13,482,537</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>3,466,105</b>	<b>(1,151,396)</b>	<b>(417,825)</b>	<b>617,546</b>	<b>(1,054,601)</b>	<b>(681,804)</b>	<b>778,025</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Transfers in	-	1,052,500	400,000	-	1,222,000	946,041	3,620,541
Transfers (out)	(3,143,383)	(74,488)	-	(553,053)	(300,000)	(547)	(4,071,471)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>322,722</b>	<b>(173,384)</b>	<b>(17,825)</b>	<b>64,493</b>	<b>(132,601)</b>	<b>263,690</b>	<b>327,095</b>
<b>FUND BALANCE</b>							
Beginning of year	4,634,389	1,508,126	1,406,106	1,287,926	3,975,493	739,107	13,551,147
<b>FUND BALANCE - JUNE 30, 2005</b>	<b>\$ 4,957,111</b>	<b>\$ 1,334,742</b>	<b>\$ 1,388,281</b>	<b>\$ 1,352,419</b>	<b>\$ 3,842,892</b>	<b>\$ 1,002,797</b>	<b>\$ 13,878,242</b>

Guest, Olds and West, PLC  
Certified Public Accountants

**CITY OF ROCHESTER**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2005**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$ 327,095</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeded depreciation in the current period.	770,334
The funds report revenue as it is collected or available, but the statement of activities reported it in prior years when earned.	(5,000)
Revenue reported in the statement of activities that does provide current financial resources and is reported as deferred revenue in the governmental funds.	43,166
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long- term liabilities in the Statement of Net Assets.	646,345
Increase in accumulated employee severance and sick pay is recorded when earned in the statement of activities.	(18,391)
Internal Service Fund is also included in governmental activities.	<u>123,735</u>
<b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 1,887,284</u></b>

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLC**  
Certified Public Accountants

**CITY OF ROCHESTER  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<b>BUSINESS TYPE ACTIVITIES</b>			
	<b>WATER AND SEWER SYSTEM</b>	<b>AUTOMOBILE PARKING SYSTEM</b>	<b>TOTAL</b>	<b>INTERNAL SERVICE FUND</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 724,245	\$ 183,096	\$ 907,341	\$ 1,261,588
Accounts receivable - net	713,414	6,325	719,739	65,685
Inventory	47,550	500	48,050	9,389
Due from other funds	1,800	-	1,800	25
Prepaid expenses	2,423	92	2,515	1,605
<b>TOTAL CURRENT ASSETS</b>	<u>1,489,432</u>	<u>190,013</u>	<u>1,679,445</u>	<u>1,338,292</u>
<b>NONCURRENT ASSETS</b>				
Restricted cash and cash equivalents	11,179,464	-	11,179,464	-
Capital assets	10,274,302	342,949	10,617,251	1,975,968
<b>TOTAL ASSETS</b>	<u>\$ 22,943,198</u>	<u>\$ 532,962</u>	<u>\$ 23,476,160</u>	<u>\$ 3,314,260</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 318,250	\$ 620	\$ 318,870	\$ 52,023
Due to other funds	8,691	1,800	10,491	-
Refundable deposits	41,700	-	41,700	-
Payable from restricted assets	117,142	-	117,142	-
<b>TOTAL CURRENT LIABILITIES</b>	<u>485,783</u>	<u>2,420</u>	<u>488,203</u>	<u>52,023</u>
<b>NET ASSETS</b>				
Invested in capital assets - net of related debt	10,274,302	342,949	10,617,251	1,975,968
Restricted for replacement	48,831	-	48,831	-
Restricted for capital improvements	11,013,491	-	11,013,491	-
Unrestricted	1,120,791	187,593	1,308,384	1,286,269
<b>TOTAL NET ASSETS</b>	<u>22,457,415</u>	<u>530,542</u>	<u>22,987,957</u>	<u>3,262,237</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 22,943,198</u>	<u>\$ 532,962</u>	<u>\$ 23,476,160</u>	<u>\$ 3,314,260</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLC**  
Certified Public Accountants



**CITY OF ROCHESTER  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN NET ASSETS  
YEAR ENDED JUNE 30, 2005**

	<b>BUSINESS TYPE ACTIVITIES</b>			<b>INTERNAL SERVICE FUND</b>
	<b>WATER AND SEWER SYSTEM</b>	<b>AUTOMOBILE PARKING SYSTEM</b>	<b>TOTAL</b>	
<b>REVENUES</b>				
Water sales	\$ 1,436,806	\$ -	\$ 1,436,806	\$ -
Sewage disposal fees	1,538,403	-	1,538,403	-
Penalty income	27,453	13,573	41,026	-
Water and sewer taps	253,310	-	253,310	-
Charges for sales and services	12,816	110,007	122,823	813,756
Miscellaneous	15,435	77,978	93,413	2,028
<b>TOTAL REVENUE</b>	<u>3,284,223</u>	<u>201,558</u>	<u>3,485,781</u>	<u>815,784</u>
<b>OPERATING EXPENSES</b>				
Water distribution	1,072,832	-	1,072,832	-
Sewage collection and disposal	1,270,075	-	1,270,075	-
Administrative	343,120	135,600	478,720	145,553
Operation and maintenance	-	53,529	53,529	315,000
Depreciation	288,894	-	288,894	179,347
<b>TOTAL OPERATING EXPENSES</b>	<u>2,974,921</u>	<u>189,129</u>	<u>3,164,050</u>	<u>639,900</u>
<b>OPERATING INCOME (LOSS)</b>	309,302	12,429	321,731	175,884
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Sale of rental equipment	-	-	-	25,966
Interest income	240,574	3,464	244,038	28,398
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	549,876	15,893	565,769	230,248
Transfers from other funds	-	78,000	78,000	-
Transfers to (other) funds	-	(78,000)	(78,000)	-
<b>CHANGE IN NET ASSETS</b>	549,876	15,893	565,769	230,248
<b>NET ASSETS - Beginning of year</b>	<u>21,907,539</u>	<u>514,649</u>	<u>22,422,188</u>	<u>3,031,989</u>
<b>NET ASSETS - End of year</b>	<u>\$ 22,457,415</u>	<u>\$ 530,542</u>	<u>\$ 22,987,957</u>	<u>\$ 3,262,237</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLC**  
Certified Public Accountants

CITY OF ROCHESTER  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS TYPE ACTIVITIES			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,180,915	\$ 83,341	\$ 3,264,256	\$ 863,164
Payments to suppliers	(2,277,171)	(12,123)	(2,289,294)	(293,797)
Payments to employees	(201,924)	(18,304)	(220,228)	(88,312)
Interfund activity	(397,974)	(45,259)	(443,233)	(40,800)
Other operating revenue	17,389	(102)	17,287	25,966
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>321,235</u>	<u>7,553</u>	<u>328,788</u>	<u>466,221</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	-	-	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(912,141)	-	(912,141)	(387,467)
Proceeds from sale of equipment	-	-	-	32,786
<b>NET CASH (USED) BY CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>	<u>(912,141)</u>	<u>-</u>	<u>(912,141)</u>	<u>(354,681)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received on investments	240,574	3,464	244,038	28,398
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(350,332)	11,017	(339,315)	139,938
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>12,253,241</u>	<u>172,079</u>	<u>12,425,320</u>	<u>1,121,650</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 11,902,909</u>	<u>\$ 183,096</u>	<u>\$ 12,086,005</u>	<u>\$ 1,261,588</u>

CITY OF ROCHESTER  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS - Continued  
 FOR THE YEAR ENDED JUNE 30, 2005

	BUSINESS TYPE ACTIVITIES			INTERNAL SERVICE FUND
	WATER AND SEWER SYSTEM	AUTOMOBILE PARKING SYSTEM	TOTAL	
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 309,302	\$ 12,429	\$ 321,731	\$ 175,884
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	288,894	-	288,894	179,347
Proceeds from sale of assets	-	-	-	25,666
Changes in assets and liabilities				
Accounts payable	(290,625)	(358)	(290,983)	37,644
Accounts receivable	(82,052)	(6,325)	(88,377)	47,772
Inventories	-	-	-	-
Other assets	(1,822)	7	(1,815)	(92)
Other liabilities	97,538	1,800	99,338	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 321,235</u>	<u>\$ 7,553</u>	<u>\$ 328,788</u>	<u>\$ 466,221</u>

Guest, Olds and West, PLC  
 Certified Public Accountants

**CITY OF ROCHESTER  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

	<b>PENSION AND OTHER EMPLOYEE BENEFITS</b>	<b>AGENCY</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ <u>2,178,246</u>	<u>\$ 748,948</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,673	\$ -
Accrued and other liabilities	27,670	34
Payroll withholdings	-	10,154
Due to other funds	-	30,776
Prepaid taxes	-	43,038
Due to other governments	-	-
Undistributed tax collections	<u>-</u>	<u>664,946</u>
<b>TOTAL LIABILITIES</b>	<u>29,343</u>	<u>\$ 748,948</u>
<b>NET ASSETS - Held in trust for pension and other employee benefits</b>	<u>\$ 2,148,903</u>	

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLLC**  
Certified Public Accountants

**CITY OF ROCHESTER  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2005**

	<b>PENSION AND OTHER EMPLOYEE BENEFITS</b>
<b>ADDITIONS</b>	
Contributions - employer	\$ 703,056
<b>INVESTMENT INCOME</b>	
Interest	<u>54,596</u>
<b>TOTAL ADDITIONS</b>	757,652
<b>DEDUCTIONS</b>	
Employee benefits	<u>104,645</u>
<b>CHANGE IN NET ASSETS</b>	653,007
<b>NET ASSETS - Beginning of year</b>	<u>1,495,896</u>
<b>NET ASSETS - End of year</b>	<u><u>\$ 2,148,903</u></u>

The Notes to Financial Statements are an  
Integral Part of this Statement.

**Guest, Olds and West, PLC**  
Certified Public Accountants

**CITY OF ROCHESTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Rochester (the "City") conform to accounting principles generally accepted in the United State of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Rochester:

**A. Reporting Entity**

The City of Rochester is governed by an elected seven-member council. There are no component units for which the City is considered to be financially accountable.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentations**

The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2005**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

*(Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period.)* All other revenue items are considered to be available only when cash is received by the government.

**Property taxes**

The City's property tax is levied on each July 1 on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31.

The City's 2004 ad valorem tax is levied on July 1, 2004 and recognized as revenue for the June 30, 2005 budget year.

The 2004 taxable valuation of the City totaled \$678,226,312 million, on which ad valorem taxes levied consisted of 12.8834 mills for the Local Governmental Unit operating purposes, .2412 mills for older person's commission, .6100 mills for debt service, raising \$10,959,881 for operating, \$379,065 for debt service. These amounts are recognized in the respective General, Capital Projects and Debt Service Fund financial statements as taxes receivable or as tax revenue.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for the resources of State gas and weight tax revenues that are restricted for use on major streets.

The Local Streets Fund accounts for the resources of State gas and weight tax revenue that are restricted for use on local streets.

The Capital Projects – General Fund accounts for the special resources used for the acquisition or major renovation of capital facilities.

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2005**

The Capital Projects – Downtown Development Authority accounts for the resources of property taxes collected for the tax increment financing plan for the adopted downtown development plan.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

The Agency Fund accounts for assets held on behalf of third parties.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.



**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

**D. Assets, Liabilities, and Net Assets or Equity**

Bank deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables- In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets – Capital Assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 100 years
Roads	10 to 20 years
Vehicles	2 to 10 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

Compensated Absences (Vacation and Sick Leave) – It is the City's policy to permit employees to accumulate earned but unused sick and compensatory time off benefits. All sick and compensatory time off is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary information – The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles, except that operating transfers have been included in the revenue and expenditure categories, rather than as "other financing sources."

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) On or before the first Monday in April, the City manager submits to the Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them. Appropriations are made on an activity basis within the General Fund and on a total fund basis in other governmental funds.
- (2) Public hearings are conducted to obtain taxpayer comments.

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

- (3) Not later than the second Monday in May, the budget is legally enacted through adoption of a resolution in accordance with the Michigan Uniform Accounting and Budgeting Act.
- (4) The City Manger is authorized by the Council to transfer budgeted amounts within appropriations, however, any revisions that alter the total appropriation must be approved by the City Council.
- (5) Appropriations for the fiscal year lapse every June 30. Council may re-appropriate any amount at its discretion.

The budget presents information by fund, function, department and line items. The level of budgetary control adopted by the City Council is at the department level.

Excess of Expenditures Over Appropriations in Budgeted Funds – The City did not have significant expenditure budget variances.

Construction Code Fees – The City oversees building constructions in accordance with the state's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City's fee structure is not intended to recover the cost of the building permit revenue. Beginning January 1, 2000, the law requires that the use of fees generated can only be used for the operation of the department including an allocation of estimated overhead costs. A summary of the revenues and expenditures for the year ended June 30, 2005, is as follows:

Building permit revenue		\$ 199,162
Related expenditures		
Direct costs	295,819	
Estimated overhead costs	<u>5,000</u>	
 Total construction code expenditures		 <u>300,819</u>
 Shortfall		 <u>(\$101,657)</u>

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements, bankers' acceptance of United States banks; commercial paper rated

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City has designated twelve financial institutions for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized the instruments approved by the state statutory authority as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 5,553,845	\$ 1,929,919	\$ 924,967	\$ 8,408,731
Investments	<u>11,496,354</u>	<u>10,156,086</u>	<u>2,002,227</u>	<u>23,654,667</u>
Total	<u>\$17,050,199</u>	<u>\$12,086,005</u>	<u>\$2,927,194</u>	<u>\$32,063,398</u>

The bank balance of the City's deposits is \$8,558,352 of which \$200,000 is covered by federal depository insurance.

The City's investments during the year consisted solely of bank investment pools and an inter-local agreement investment pool. The bank investment pools are regulated by the Michigan Banking Act. Investments under the inter-local agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and inter-local agreement pools is the same as the value of the pool shares. Investments are normally categorized to give an indication of the level of risk assumed by the City; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The City believes that the investments in these funds comply with the investment authority noted above.

**NOTE 4 – RECEIVABLES**

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special Assessments	<u>\$ 111,556</u>	<u>\$1,066,315</u>

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2005**

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity of the City for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 2,107,912	\$ -	\$ -	\$ 2,107,912
Capital Assets Being Depreciated				
Buildings	3,396,746	11,000	-	3,407,746
Improvements Other Than Buildings	385,829	-	-	385,829
Machinery and Equipment	1,331,196	5,148	-	1,336,344
Infrastructure	14,961,343	2,734,698	-	17,696,041
Internal Service Fund	<u>3,364,510</u>	<u>387,467</u>	<u>337,246</u>	<u>3,414,731</u>
Subtotal	23,439,624	3,138,313	337,246	26,240,691
Less Accumulated Depreciation for				
Buildings	767,609	82,176	-	849,785
Improvements Other Than Buildings	248,121	4,109	-	252,230
Machinery and Equipment	707,183	77,225	-	784,408
Infrastructure	5,463,898	759,716	-	6,223,614
Internal Service Fund	<u>1,564,168</u>	<u>179,347</u>	<u>304,752</u>	<u>1,438,763</u>
Subtotal	8,750,979	1,102,573	304,752	9,548,800
Net Capital Assets Being Depreciated	<u>14,688,645</u>	<u>2,035,740</u>	<u>32,494</u>	<u>16,691,891</u>
Net Capital Assets	<u>\$ 16,796,557</u>	<u>\$ 2,035,740</u>	<u>\$ 32,494</u>	<u>\$ 18,799,803</u>

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2005**

**Business-Type Activities**

Capital Assets Not Being Depreciated

Land	\$ 363,253	\$ -	\$ -	\$ 363,253
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Capital Assets Being Depreciated

Improvements Parking Lots	166,609	-	-	166,609
Sewage Disposal System	7,336,032	491,249	-	7,827,281
Water Distribution System	5,977,743	420,892	-	6,398,635
Parking Meters	59,776	-	-	59,776
Other Equipment	<u>57,728</u>	<u>-</u>	<u>398</u>	<u>57,330</u>

Subtotal	13,597,888	912,141	398	14,509,631
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Less Accumulated Depreciation for

Improvements Parking Lots	166,609	-	-	166,609
Sewage Disposal System	1,646,757	144,857	-	1,791,614
Water Distribution System	2,054,851	142,155	-	2,197,006
Parking Meters	59,776	-	-	59,776
Other Equipment	<u>39,144</u>	<u>1,882</u>	<u>398</u>	<u>40,628</u>

Subtotal	3,967,137	288,894	398	4,255,633
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Net Capital Assets Being Depreciated	<u>9,630,751</u>	<u>623,247</u>	<u>-</u>	<u>10,253,998</u>
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Net Capital Assets	<u>\$9,994,004</u>	<u>\$ 623,247</u>	<u>\$ -</u>	<u>\$10,617,251</u>
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**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental Activities</b>		
General Government		\$ 67,363
Public Safety		78,014
Public Works		758
Recreation and Culture		46,994
Internal Service Fund Depreciation is Charged to the		
Various Functions Based on Their Usage of the Assets		179,347
Community and Economic Development		75,311
Highway Streets		<u>654,786</u>
<b>Total Governmental Activities</b>		<b><u>\$1,102,573</u></b>
<b>Business-Type Activities</b>		
Water and Sewer Fund		<u>\$ 288,894</u>

**NOTE 6 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of inter-fund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Tax Collection Fund	\$800
General	Auto Parking	-
Major Streets	Water and Sewer	7,891
General	Revolving Equipment	-
General	Water and Sewer Improvement	<u>-</u>
<b>Total</b>		<b><u>\$8,691</u></b>

(Note 6 Continued on next page)

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

**INTERFUND TRANSFERS**

<u>Transfers Out:</u>				
	General	Other	Business	
<u>Transfers In:</u>	Fund	Governmental	Type	Total
		Funds	Activities	
Major Street Fund	\$ 750,000	\$ 302,500	\$ -	\$1,052,500
Local Street Fund	400,000	-	-	400,000
DDA	-	-	78,000	78,000
Capital Projects	1,222,000	-	-	1,222,000
Other Governmental Funds	355,183	591,041	-	946,224
Business Type Activities	78,000	-	-	78,000
Fiduciary Funds	<u>338,200</u>	<u>-</u>	<u>-</u>	<u>338,200</u>
Total	<u>\$3,143,383</u>	<u>\$ 893,541</u>	<u>\$ 78,000</u>	<u>\$4,114,924</u>

**NOTE 7 – LONG-TERM DEBT**

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	BEGINNING BALANCE JULY 1, 2004	REDUCTIONS ADDITIONS	ENDING BALANCE JUNE 30, 2005	DUE WITHIN ONE YEAR
<b>GENERAL OBLIGATION BONDS:</b>				
1994 Unlimited Tax Bonds maturing through October 1, 2013 with interest ranging from 4.0% to 7%	\$2,450,000	(\$150,000)	\$2,300,000	\$ 200,000
1990 Limited Tax Bonds maturing October 1, 2009 and 2010 with interest at 5.0%	400,000	-	400,000	-



**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

	BEGINNING BALANCE JULY 1, 2004	(REDUCTIONS) ADDITIONS	ENDING BALANCE JUNE 30, 2005	DUE WITHIN ONE YEAR
1991 Limited Tax Bonds maturing October 1, 2009 and 2010 with interest at 5.0%	500,000	-	500,000	-
1996 Michigan Transportation Fund Bonds maturing through October 1, 2010 with interest ranging from 4.2% to 5.1%	525,000	( 50,000)	475,000	75,000
1996 Unlimited Tax Bonds maturing through October 1, 2008 with interest ranging from 4.4% to 5.1%	2,110,000	( 375,000)	1,735,000	420,000
2001 Unlimited Tax Bonds maturing through April 1, 2020 with interest ranging from 4.0% to 6.0%	1,550,000	( 50,000)	1,500,000	50,000
Land Contract Payable due April 2025 with interest at 4.5%	-	967,435	967,435	28,475
Land Contract Payable due August 2010 with interest at 7.5%	<u>100,486</u>	<u>( 13,780)</u>	<u>86,706</u>	<u>14,850</u>
<b>TOTAL</b>	<u><b>\$ 7,635,486</b></u>	<u><b>\$ 328,655</b></u>	<u><b>\$7,964,141</b></u>	<u><b>\$788,325</b></u>

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

The annual requirements to amortize principal and interest on all debt outstanding as of June 30, 2005 are as follows:

YEAR ENDING JUNE 30,	GOVERNMENTAL ACTIVITIES
2006	\$ 1,143,036
2007	1,108,275
2008	1,136,490
2009	1,087,230
2010	1,101,669
2011-2015	2,904,850
2016-2020	1,157,525
2021-2025	515,263
<b>TOTAL</b>	<b>\$ <u>10,154,338</u></b>

**NOTE 8 – RESTRICTED ASSETS**

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue Bond Restrictions	
Improvement and Replacement Account	\$11,121,137
Bond Reserve Replacement Account	<u>48,831</u>
Total Restricted Assets	<u><b>\$11,169,968</b></u>

**NOTE 9 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League Workers' Compensation for claims relating to workers' compensation and purchases private insurance coverage for liability and general claims. The Downtown Development Authority utilizes the Michigan Municipal risk pool for general liability claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

The Michigan Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

**NOTE 10 – POST EMPLOYMENT HEALTH CARE BENEFITS**

In addition to the pension benefits described in Note 13, the City provides post-employment health care benefits in accordance with the non-union benefit resolution.

All non-union employees and their spouses, the Department of Public Works union employees and the police union employees who retire from the City are provided with 4% of the cost of single and/or spouse coverage premiums for each year of employment. Currently, eight retirees are receiving benefits. The cost of retirees' health care benefits are recognized as a current expenditure. For the year ended June 30, 2005 costs recognized totaled \$73,255.

**NOTE 11 – PENDING LITIGATION**

In the normal course of its activities, the City becomes a party in various legal actions. Legal counsel and management of the City are of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, have not reflected loss reserves in the financial statements.

**NOTE 12 – LIABILITY FOR SICK LEAVE PAY AND COMPENSATORY TIME OFF**

The City has contractual obligations with both the police department employees and the department of public works employees. Both of these union contracts provide for payment of unused accumulated sick time on termination of employment.

The City has also established policies affecting all of the non-union personnel which provide for both payments of accumulated unused sick time and accumulated unused compensatory time off (unpaid overtime hours).

In addition, the Council adopted a resolution providing for a separate computation of severance pay or termination pay for the City Manager. This resolution provides for severance pay of ninety days, if sixty days notice in advance of a voluntary resignation is submitted and an escalating number of days of termination pay up to a maximum of three hundred sixty days (after nine full years of service) if terminated by the Council with less than the number of days notice as provided in the formula.

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS – Continued**  
**JUNE 30, 2005**

The table below indicates the amount which would have been due the Manager on June 30, 2005 had his employment been terminated by the Council without notice. The termination pay is a contingent liability and is not due the City Manager if termination is voluntary or the result of his failure to perform the duties of his office or his conviction of an illegal act. However, the ninety-day severance pay is an obligation of the City providing the City Manager submits a sixty-day notice in advance of his voluntary resignation.

As of June 30, 2005, the estimated liability for all sick leave and compensatory time off has been computed as follows:

CLASSIFICATION	SICK LEAVE	SEVERANCE AND	TOTAL
		C.T.O.	
City Manager	\$ -	\$108,760	\$108,760
Police Department	55,571	-	55,571
Department of Public Works	33,020	-	33,020
Non-union Personnel	<u>156,459</u>	<u>2,095</u>	<u>158,554</u>
<b>TOTAL</b>	<b><u>\$245,050</u></b>	<b><u>\$110,855</u></b>	<b><u>\$355,905</u></b>

The liability has been funded by transfers to the Fiduciary Funds in prior years. As of June 30, 2005, the Severance and Sick Pay account maintained in the Fiduciary Funds has a balance of \$260,787.

**NOTE 13 – PENSION PLANS**

**PLAN DESCRIPTION:**

- A. The City of Rochester participates in the Municipal Employees' Retirement System of Michigan (MERS) which is an agent multiple employer public employee retirement system (PERS) that is administered by the State of Michigan. The MERS was organized pursuant to Act No. 220, Public Acts of 1996, as amended, and the constitution of the State of Michigan. The plan covers all employees except the City Manager and is financed by both employee and employer contributions.

The plan provides for vesting of benefits after 10 years of service. Participants may elect normal retirement at age 60 with 10 or more years of service, police department and non-union participants at age 50 with 25 or more years of service. The plan also provides for early retirement at age 55 with 15 or more years of service, and at age 50 with 25 or more years of service. Election of early retirement is subject to a reduction of benefits.

The MERS issues a publicly available financial report. That report may be obtained by writing to the Michigan Municipal Retirement System, 1134 Municipal Way, Lansing, Michigan 48917.

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2005**

**FUNDING POLICY:**

Police members contribute 5% of annual compensation. Non-police members contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The City is required to contribute an actuarially determined rate. The contribution requirements of plan members and the City are established by Act No. 220 of the Public Acts of 1996, and the MERS Plan Document as revised.

**ANNUAL PENSION COST:**

The annual required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal funding actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return, (b) projected annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**THREE-YEAR TREND INFORMATION**

<b><u>FISCAL YEAR</u></b> <b><u>FUNDING</u></b>	<b><u>ANNUAL PENSION</u></b> <b><u>COST (APC)</u></b>	<b><u>PERCENTAGE OF</u></b> <b><u>APC CONTRIBUTED</u></b>	<b><u>NET PENSION</u></b> <b><u>OBLIGATION</u></b>
6/30/03	32,792	100%	0
6/30/04	64,618	100%	0
6/30/05	190,781	100%	0

**SCHEDULE OF FUNDING PROGRESS**

<b><u>ACTUARIAL</u></b> <b><u>VALUATION</u></b> <b><u>DATE</u></b>	<b><u>ACTUARIAL</u></b> <b><u>VALUE OF</u></b> <b><u>ASSETS</u></b> <b><u>(A)</u></b>	<b><u>ACTUARIAL</u></b> <b><u>ACCRUED</u></b> <b><u>LIABILITY (AAL)</u></b> <b><u>(B)</u></b>	<b><u>UNFUNDED</u></b> <b><u>AAL</u></b> <b><u>(UAAL)</u></b> <b><u>(B-A)</u></b>	<b><u>FUNDED</u></b> <b><u>RATIO</u></b> <b><u>(A/B)</u></b>	<b><u>COVERED</u></b> <b><u>PAYROLL</u></b> <b><u>(C)</u></b>	<b><u>UAAL AS A</u></b> <b><u>PERCENTAGE OF</u></b> <b><u>COVERED PAYROLL</u></b> <b><u>((B-A)/C)</u></b>
12/31/02	10,583,429	11,000,997	417,568	96	2,892,325	14
12/31/03	11,046,855	11,809,584	762,729	94	3,010,220	25
12/31/04	11,580,247	13,109,802	1,529,555	88	3,205,994	48

**CITY OF ROCHESTER**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**JUNE 30, 2005**

- B. By agreement with the City Manager, a deferred compensation plan is purchased from the International City Management Association Retirement Corporation. The net cost to the City for the year ended June 30, 2004 and June 30, 2005 amounted to \$10,451 and \$10,778 respectively. All contributions to the plan together with accumulated earnings thereon remain an asset of the City of Rochester subject to its control and right to withdrawal.
- C. The City of Rochester has established a Defined Benefit Pension Plan as of July 1, 1989 for the Rochester Volunteer Firefighters Association. The plan provides for a defined benefit of \$3.00 per month for each year of service with a maximum of thirty-five years of service. The plan provides for vesting of benefits after 10 years of service. All volunteer firefighters that have attained eighteen years of age and completed the required training and 1,000 hours of service are eligible to participate. Entry date is July 1<sup>st</sup> following satisfaction of the above requirements. Participants may elect normal retirement on the first day of the month following attainment of age 55. Contributions for the years ended June 30, 2004 and June 30, 2005 were \$6,491 and \$7,700.

**CITY OF ROCHESTER  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2005**

**REVENUES**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH AMENDED BUDGET FAVORABLE (UNFAVORABLE)</b>
<b>GENERAL PROPERTY TAXES</b>				
Property taxes	\$ 7,850,000	\$ 8,020,000	\$ 8,017,984	\$ (2,016)
Interest and penalties	50,000	54,000	86,176	32,176
Collection fees	250,000	260,000	266,592	6,592
	<u>8,150,000</u>	<u>8,334,000</u>	<u>8,370,752</u>	<u>36,752</u>
<b>LICENSES AND PERMITS</b>				
Building department	110,000	225,500	235,866	10,366
Clerks department	17,000	17,000	19,294	2,294
Cable television franchise	90,000	100,000	101,371	1,371
	<u>217,000</u>	<u>342,500</u>	<u>356,531</u>	<u>14,031</u>
<b>INTERGOVERNMENTAL REVENUE</b>				
State shared taxes	<u>886,200</u>	<u>888,400</u>	<u>884,156</u>	<u>(4,244)</u>
<b>SERVICE CHARGES AND SALES</b>				
Misc. services and sales	184,250	217,750	241,273	23,523
Administrative cross charge	528,360	528,360	528,360	-
	<u>712,610</u>	<u>746,110</u>	<u>769,633</u>	<u>23,523</u>
<b>FINES AND FORFEITS</b>				
Other ordinance fines	<u>70,000</u>	<u>62,000</u>	<u>63,711</u>	<u>1,711</u>
<b>MISCELLANEOUS</b>				
Rent-Municipal Building	4,800	4,800	4,800	-
Interest on investments	50,000	160,000	193,560	33,560
Other items	8,500	114,500	131,787	17,287
	<u>63,300</u>	<u>279,300</u>	<u>330,147</u>	<u>50,847</u>
<b>TOTAL REVENUE</b>	<u>\$10,099,110</u>	<u>\$ 10,652,310</u>	<u>\$10,774,930</u>	<u>\$ 122,620</u>

**CITY OF ROCHESTER  
GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2005**

**EXPENDITURES**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH AMENDED BUDGET FAVORABLE (UNFAVORABLE)</b>
<b>GENERAL GOVERNMENT</b>				
City Council	\$ 74,130	\$ 74,130	\$ 69,074	\$ 5,056
Manager	390,760	390,760	385,333	5,427
Elections	40,740	25,740	25,597	143
Finance	440,260	440,260	431,025	9,235
Clerk	95,530	95,530	90,428	5,102
Board of Review	2,750	2,750	2,309	441
Civic Center	85,390	85,390	83,406	1,984
Other general services	324,100	324,100	327,335	(3,235)
<b>TOTAL GENERAL GOVERNMENT</b>	<u>1,453,660</u>	<u>1,438,660</u>	<u>1,414,507</u>	<u>24,153</u>
<b>PUBLIC SAFETY</b>				
Police department	2,851,320	2,802,320	2,689,548	112,772
Fire department	359,640	359,640	345,937	13,703
Protective inspection	386,170	322,170	295,819	26,351
<b>TOTAL PUBLIC SAFETY</b>	<u>3,597,130</u>	<u>3,484,130</u>	<u>3,331,304</u>	<u>152,826</u>
<b>PUBLIC WORKS</b>	1,028,630	868,630	828,365	40,265
<b>SANITATION</b>	755,100	700,100	687,862	12,238
<b>PUBLIC LIBRARY</b>	465,000	465,000	460,816	4,184
<b>PARKS AND RECREATION</b>	502,560	502,560	531,912	(29,352)
<b>PLANNING COMMISSION</b>	38,050	46,050	52,046	(5,996)
<b>ZONING BOARD OF APPEALS</b>	2,980	2,980	2,013	967
<b>BUDGET CONTINGENCY</b>	100,000	-	-	-
<b>TRANSFERS OUT</b>	<u>2,156,000</u>	<u>3,144,200</u>	<u>3,143,383</u>	<u>817</u>
<b>TOTAL EXPENDITURES</b>	<u>10,099,110</u>	<u>10,652,310</u>	<u>10,452,208</u>	<u>200,102</u>
<b>FUND BALANCE- BEGINNING OF YEAR</b>	<u>4,634,389</u>	<u>4,634,389</u>	<u>4,634,389</u>	<u>-</u>
<b>FUND BALANCE- END OF YEAR</b>	<u>\$4,634,389</u>	<u>\$ 4,634,389</u>	<u>\$ 4,957,111</u>	<u>\$ 322,722</u>



**CITY OF ROCHESTER  
MAJOR STREET FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2005**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET - FAVORABLE (UNFAVORABLE)
Revenues	\$ 443,720	\$ 443,720	\$ 503,953	\$ 60,233
Operating transfer in	<u>852,500</u>	<u>1,052,500</u>	<u>1,052,500</u>	<u>-</u>
<b>Total Revenues</b>	1,296,220	1,496,220	1,556,453	60,233
Expenditures	<u>1,144,150</u>	<u>1,686,450</u>	<u>1,729,837</u>	<u>(43,387)</u>
<b>Fund Balance - Beginning of year</b>	1,508,126	1,508,126	1,508,126	-
Fund balance (appropriated) surplus	<u>152,070</u>	<u>(190,230)</u>	<u>(173,384)</u>	<u>16,846</u>
<b>Fund Balance - End of year</b>	<u>\$ 1,660,196</u>	<u>\$ 1,317,896</u>	<u>\$ 1,334,742</u>	<u>\$ 16,846</u>

**CITY OF ROCHESTER  
LOCAL STREETS FUND  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2005**

	<b>ORIGINAL BUDGET</b>	<b>AMENDED BUDGET</b>	<b>ACTUAL</b>	<b>VARIANCE WITH AMENDED BUDGET - FAVORABLE (UNFAVORABLE)</b>
Revenues	\$ 191,500	\$ 258,400	\$ 271,115	\$ 12,715
Operating transfer in	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>-</u>
<b>Total Revenues</b>	591,500	658,400	671,115	12,715
Expenditures	<u>685,630</u>	<u>758,530</u>	<u>688,940</u>	<u>69,590</u>
<b>Fund Balance - Beginning of year</b>	1,406,106	1,406,106	1,406,106	-
Fund balance (appropriated) surplus	<u>(94,130)</u>	<u>(100,130)</u>	<u>(17,825)</u>	<u>82,305</u>
<b>Fund Balance - End of year</b>	<u>\$ 1,311,976</u>	<u>\$ 1,305,976</u>	<u>\$ 1,388,281</u>	<u>\$ 82,305</u>

**CITY OF ROCHESTER  
NON-MAJOR GOVERNMENTAL  
COMBINING BALANCE SHEET  
JUNE 30, 2005**

	<b>SPECIAL REVENUE FUNDS</b>	<b>DEBT SERVICE FUND</b>	<b>CAPITAL PROJECTS FUND</b>	<b>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</b>
<b>ASSETS</b>				
Cash and investments	\$ 374,422	\$169,797	\$ 457,429	\$ 1,001,648
Due from other funds	488	-	-	488
Taxes receivable - net	-	1,851	-	1,851
Prepaid expenses	444	-	-	444
<b>TOTAL ASSETS</b>	<u>\$ 375,354</u>	<u>\$171,648</u>	<u>\$ 457,429</u>	<u>\$ 1,004,431</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 1,634	\$ -	\$ -	\$ 1,634
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>1,634</u>	<u>-</u>	<u>-</u>	<u>1,634</u>
<b>FUND BALANCES</b>				
Reserved	287,491	171,648	457,429	916,568
Unreserved	86,229	-	-	86,229
<b>TOTAL FUND BALANCES</b>	<u>373,720</u>	<u>171,648</u>	<u>457,429</u>	<u>1,002,797</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 375,354</u>	<u>\$171,648</u>	<u>\$ 457,429</u>	<u>\$ 1,004,431</u>

**CITY OF ROCHESTER**  
**NON-MAJOR GOVERNMENTAL**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2005**

	<b>SPECIAL REVENUE FUNDS</b>	<b>DEBT SERVICE FUND</b>	<b>CAPITAL PROJECTS FUND</b>	<b>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</b>
<b>REVENUES</b>				
Sales and services	\$ 43,445	\$ -	\$ -	\$ 43,445
Intergovernmental revenue	-	-	-	-
Taxes	-	379,379	-	379,379
Interest income	7,520	1,333	4,154	13,007
Miscellaneous	<u>444</u>	<u>-</u>	<u>-</u>	<u>444</u>
<b>TOTAL REVENUES</b>	<u>51,409</u>	<u>380,712</u>	<u>4,154</u>	<u>436,275</u>
<b>EXPENDITURES</b>				
Administrative	130,745	4,851	-	135,596
Capital outlay	13,223	-	594	13,817
Principal and interest	<u>-</u>	<u>968,666</u>	<u>-</u>	<u>968,666</u>
<b>TOTAL EXPENDITURES</b>	<u>143,968</u>	<u>973,517</u>	<u>594</u>	<u>1,118,079</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(92,559)	(592,805)	3,560	(681,804)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	90,000	591,041	265,000	946,041
Transfers out	<u>-</u>	<u>-</u>	<u>(547)</u>	<u>(547)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES</b>	(2,559)	(1,764)	268,013	263,690
<b>FUND BALANCE - JULY 1, 2004</b>	<u>376,279</u>	<u>173,412</u>	<u>189,416</u>	<u>739,107</u>
<b>FUND BALANCE - JUNE 30, 2005</b>	<u>\$ 373,720</u>	<u>\$ 171,648</u>	<u>\$ 457,429</u>	<u>\$ 1,002,797</u>

**CITY OF ROCHESTER**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2005**

	CEMETERY FUND	DRUG LAW ENFORCEMENT FUND	COMMUNITY DEVELOPMENT BLOCK GRANT	TOTAL NON-MAJOR SPECIAL REVENUE FUNDS
<b>ASSETS</b>				
Cash and investments	\$316,354	\$ 30,613	\$ 27,455	\$ 374,422
Loans and accounts receivable - net	-	-	-	-
Due from other funds	-	488	-	488
Prepaid expenses	444	-	-	444
<b>TOTAL ASSETS</b>	<u>\$316,798</u>	<u>\$ 31,101</u>	<u>\$ 27,455</u>	<u>\$ 375,354</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 1,634	\$ -	\$ -	\$ 1,634
Accrued payroll	-	-	-	-
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>1,634</u>	<u>-</u>	<u>-</u>	<u>1,634</u>
<b>FUND BALANCES</b>				
Reserved	287,491	-	-	287,491
Unreserved	27,673	31,101	27,455	86,229
<b>TOTAL FUND BALANCES</b>	<u>315,164</u>	<u>31,101</u>	<u>27,455</u>	<u>373,720</u>
<b>TOTAL LIABILITIES</b>				
<b>AND FUND BALANCES</b>	<u>\$316,798</u>	<u>\$ 31,101</u>	<u>\$ 27,455</u>	<u>\$ 375,354</u>

**CITY OF ROCHESTER**  
**NON-MAJOR SPECIAL REVENUE FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**YEAR ENDED JUNE 30, 2005**

	CEMETERY FUND	DRUG LAW ENFORCEMENT FUND	COMMUNITY DEVELOPMENT BLOCK GRANT FUND	TOTAL NON-MAJOR SPECIAL REVENUE FUND
<b>REVENUES</b>				
Sales and services	\$ 39,460	\$ 3,985	\$ -	\$ 43,445
Intergovernmental revenue	-	-	-	-
Interest income	6,737	688	95	7,520
Miscellaneous	444	-	-	444
<b>TOTAL REVENUES</b>	<u>46,641</u>	<u>4,673</u>	<u>95</u>	<u>51,409</u>
<b>EXPENDITURES</b>				
Administrative	130,482	-	263	130,745
Capital outlay	-	13,223	-	13,223
<b>TOTAL EXPENDITURES</b>	<u>130,482</u>	<u>13,223</u>	<u>263</u>	<u>143,968</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(83,841)	(8,550)	(168)	(92,559)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	90,000	-	-	90,000
Transfers out	-	-	-	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES</b>	6,159	(8,550)	(168)	(2,559)
<b>FUND BALANCE - JULY 1, 2004</b>	<u>309,005</u>	<u>39,651</u>	<u>27,623</u>	<u>376,279</u>
<b>FUND BALANCE - JUNE 30, 2005</b>	<u>\$ 315,164</u>	<u>\$ 31,101</u>	<u>\$ 27,455</u>	<u>\$ 373,720</u>

**CITY OF ROCHESTER**  
**NON-MAJOR DEBT SERVICE FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2005**

	1996 HIGHWAY FUND BONDS	1994 GENERAL OBLIGATION BONDS	1991 LIMITED TAX DEVELOPMENT BONDS	1990 LIMITED TAX DEVELOPMENT BONDS	1996 LIMITED TAX DEVELOPMENT BONDS	2001 GENERAL OBLIGATION BONDS	TOTAL NON - MAJOR DEBT SERVICE FUNDS
<b>ASSETS</b>							
Cash	\$ 15,586	\$ 88,557	\$ 18,509	\$ 15,547	\$ 11,949	\$ 19,649	\$ 169,797
Due from other funds	-	-	-	-	-	-	-
Taxes receivable - net	-	1,573	-	-	-	278	1,851
<b>TOTAL ASSETS</b>	<u>\$ 15,586</u>	<u>\$ 90,130</u>	<u>\$ 18,509</u>	<u>\$ 15,547</u>	<u>\$ 11,949</u>	<u>\$ 19,927</u>	<u>\$ 171,648</u>
<b>LIABILITIES</b>							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>FUND BALANCES</b>							
Reserved	<u>15,586</u>	<u>90,130</u>	<u>18,509</u>	<u>15,547</u>	<u>11,949</u>	<u>19,927</u>	<u>171,648</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 15,586</u>	<u>\$ 90,130</u>	<u>\$ 18,509</u>	<u>\$ 15,547</u>	<u>\$ 11,949</u>	<u>\$ 19,927</u>	<u>\$ 171,648</u>

CITY OF ROCHESTER  
NON-MAJOR DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, TRANSFERS AND  
CHANGES IN FUND BALANCE  
YEAR END JUNE 30, 2005

	1996 HIGHWAY FUND BONDS	1994 GENERAL OBLIGATION BONDS	1991 LIMITED TAX DEVELOPMENT BONDS	1990 LIMITED TAX DEVELOPMENT BONDS	1996 LIMITED TAX DEVELOPMENT BONDS	2001 GENERAL OBLIGATION BONDS	TOTAL NON - MAJOR DEBT SERVICE FUNDS
REVENUES							
Taxes	\$ -	\$ 255,096	\$ -	\$ -	\$ -	\$ 124,283	\$ 379,379
Interest income	236	354	23	13	8	699	1,333
<b>TOTAL REVENUES</b>	<b>236</b>	<b>255,450</b>	<b>23</b>	<b>13</b>	<b>8</b>	<b>124,982</b>	<b>380,712</b>
EXPENDITURES							
Principal on bonds	50,000	150,000	-	-	375,000	50,000	625,000
Interest on bonds	24,088	109,000	25,000	20,000	94,753	70,825	343,666
Paying agency fees	400	750	750	750	300	300	3,250
Miscellaneous	-	1,312	-	-	-	289	1,601
<b>TOTAL EXPENDITURES</b>	<b>74,488</b>	<b>261,062</b>	<b>25,750</b>	<b>20,750</b>	<b>470,053</b>	<b>121,414</b>	<b>973,517</b>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(74,252)	(5,612)	(25,727)	(20,737)	(470,045)	3,568	(592,805)
OTHER FINANCING SOURCES (USES)							
Transfers In	74,488	-	25,750	20,750	470,053	-	591,041
Transfers Out	-	-	-	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	236	(5,612)	23	13	8	3,568	(1,764)
FUND BALANCE - JULY 1, 2004	15,350	95,742	18,486	15,534	11,941	16,359	173,412
FUND BALANCE - JUNE 30, 2005	\$ 15,586	\$ 90,130	\$ 18,509	\$ 15,547	\$ 11,949	\$ 19,927	\$ 171,648



**CITY OF ROCHESTER**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**COMBINING BALANCE SHEET**  
**JUNE 30, 2005**

	<b>FIRE EQUIPMENT RESERVE</b>	<b>1996 CONSTRUCTION FUND</b>	<b>OPC CONSTRUCTION FUND</b>	<b>TOTAL NON-MAJOR CAPITAL PROJECTS FUNDS</b>
<b>ASSETS</b>				
Cash and investments	\$ 457,356	\$ 73	\$ -	\$ 457,429
Due from other funds	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 457,356</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ 457,429</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>				
Reserved	<u>457,356</u>	<u>73</u>	<u>-</u>	<u>457,429</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 457,356</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ 457,429</u>

**CITY OF ROCHESTER**  
**NON-MAJOR CAPITAL PROJECTS FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, TRANSFERS AND**  
**CHANGES IN FUND BALANCE**  
**YEAR END JUNE 30, 2005**

	<b>FIRE EQUIPMENT RESERVE</b>	<b>1996 CONSTRUCTION FUND</b>	<b>OPC CONSTRUCTION FUND</b>	<b>TOTAL NON - MAJOR CAPITAL PROJECTS FUNDS</b>
<b>REVENUES</b>				
Interest income	\$ 4,145	2	7	\$ 4,154
Miscellaneous	-	-	-	-
<b>TOTAL REVENUES</b>	<u>4,145</u>	<u>2</u>	<u>7</u>	<u>\$ 4,154</u>
<b>EXPENDITURES</b>				
Capital outlay	-	-	594	\$ 594
Administration	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>594</u>	<u>594</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>4,145</u>	<u>2</u>	<u>(587)</u>	<u>3,560</u>
<b>OTHER FINANCING SOURCES ( USES)</b>				
Operating Transfers In	265,000	-	-	265,000
Operating Transfers Out	-	-	(547)	(547)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES</b>	<u>269,145</u>	<u>2</u>	<u>(1,134)</u>	<u>268,013</u>
<b>UNAPPROPRIATED FUND BALANCE - JULY 1, 2004</b>	<u>188,211</u>	<u>71</u>	<u>1,134</u>	<u>189,416</u>
<b>UNAPPROPRIATED FUND BALANCE - JUNE 30, 2005</b>	<u>\$ 457,356</u>	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ 457,429</u>

**CITY OF ROCHESTER  
COMMENTS AND RECOMMENDATIONS  
JUNE 30, 2005**

**1994 GENERAL OBLIGATION TAX  
BONDS DEBT RETIREMENT FUND**

In accordance with the Non-Arbitrage and Tax Compliance Certificate for the 1994 General Obligation Bonds, the "Debt Retirement Fund is established primarily to achieve a proper matching of revenues and debt service within each bond year and will be depleted at least once each year, except for a reasonable carryover amount (not to exceed the greater of one year's earnings on the Debt Retirement Fund or 1/12 of annual debt service)." At June 30, 2005, the Debt Retirement Fund for the 1994 General Obligation Funds Tax Bonds had a fund balance of \$90,130. One twelfth of its annual debt service for the upcoming year ending June 30, 2006, would be approximately \$21,600.

**RECOMMENDATION**

For the fiscal year ending June 30, 2005, the tax rate for the 1994 General Obligation Bonds was lowered from .44 mills to .41 mills in accordance with our recommendations from previous years. It is our recommendation that the Manager and Council continue to monitor the 1994 General Obligation Bond fund and adjust future tax levies accordingly to avoid an excessive fund balance in the fund which could result in a violation of the Non-Arbitrage Agreement.

*Guest, Olds and West, PLC*  
**GUEST, OLDS AND WEST, PLC**  
Certified Public Accountants